TESTIMONY OF GOVERNOR CHET CULVER

UNITIED STATES SENATE

LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION APPROPRIATIONS SUBCOMMITTEE THURSDAY, JANUARY 21ST, 2010

Senator Harkin, Ranking Member Cochran and members of the sub-committee, thank you for allowing me to be here to today to speak to you about the job situation in Iowa, our state budgetary conditions and the need to continue the state-federal job creation initiatives that were part of the American Recovery and Reinvestment Act or A-R-R-A.

Before I move on to my testimony, I want to take a moment of personal privilege and thank the Chairman of this Subcommittee for all the hard work he has done on behalf of Iowa. Our State has no greater champion than Senator Harkin. Whether it is his work in shepherding through the last two Farm Bills or the work he has done on health care, Tom Harkin has fought on behalf of all Iowans. Through his work on this subcommittee, Senator Harkin has helped modernize hundreds of Iowa schools with the appropriately named "Harkin Grants". In addition he has helped fund vital research at the National Institutes of Health that will help keep our nation on the pathway to greater health. I simply do not have enough time to list all that you have done for our State but, on behalf of all Iowans, I simply want to say "thank you".

Like the Members of this committee, my focus as governor, is on jobs, jobs; attracting them, maintaining them, creating them, and helping those without them find them. I have made job creation and retention my top priority during our legislative session this year.

ARRA in Iowa

The worldwide economic downturn has been a challenge to nations, states, counties, and municipalities alike – very few have been immune from these significant economic difficulties. I want to thank the Congress for enacting ARRA in February of last year. The need for ARRA and the inclusion of funding for states was clear. It's hard to imagine, but economic conditions in States could be even more challenging had it not been for the federal government's investment in states through ARRA. In Iowa, we are putting these A-R-R-A funds to work.

In Iowa, we have estimated that \$2.5 billion of ARRA funds will move through state government. And to address the challenges of this economic downturn, we are moving these funds in an effective and efficient manner. Of the \$2.5 billion that we have estimated, the State has obligated, appropriated or disbursed \$1.75 billion or 71% of those funds. We have

disbursed nearly \$1.22 billion or almost 50% of the funds. We are moving quickly in order to expedite our economic recovery, which is consistent with the overriding goals of ARRA.

ARRA has had a positive impact in Iowa even during this economic downturn. In FY 2010, we are using a total of \$591.6 million of ARRA funds, including \$207.6 million for ARRA FMAP, \$321 million for ARRA State Fiscal Stabilization Fund (SFSF) for Education, and \$63 million in State Fiscal Stabilization Funds for Government Services.

In Iowa, ARRA funds have helped keep our commitments to significant priorities, including retaining teaching positions in our schools. In the first quarterly ARRA report filed in October of 2009, Iowa reported that 5,323 jobs were either created or saved with ARRA funds. In the area of education, there were 2,208 jobs saved.

These jobs were throughout our education system, K-12, community colleges, and our institutions of higher education. They were not only teachers, but librarians who provide vital learning resources to our students, janitors who help clean our classrooms, secretarial staff that help administer the schools, and cooks who provide nutritious food to our students.

Since not every school district faces the same challenges, flexibility is the key to making sure SFSF funds are used to maximum effectiveness. The SFSF education funds run straight through the Iowa Department of Education to the local school districts. That type of direct allocation allows local school districts the ability to make important decisions on how best to use these funds.

And it is not just in education that ARRA is working in Iowa. Iowa has been recognized as a leader in moving ARRA funds quickly in transportation. The United States House of Representatives Committee on Transportation and Infrastructure has ranked Iowa as one of the most effective states in putting ARRA highway capital funds to work to quickly create and retain jobs. As a matter of fact, as soon as ARRA had been signed by President Obama last February, Iowa contractors started calling back employees and hiring new ones. In the October ARRA report, we reported creating or saving 1,213 construction jobs related to ARRA transportation expenditures.

Renewable Energy

This hearing is about creating and saving jobs and in lowa, there can be no more vital sector of our economy in which to do that than in renewable energy. The Department of Energy created several new ARRA programs that will help spur renewable energy job growth opportunities. These opportunities exist not just to the public sector, but also in the private sector -- and it is not just with spending but with tax credits, too. For instance, the Department of Energy recently announced that ARRA tax credits were being provided to four renewable energy

companies located in Iowa. These tax credits will result in the creation or retention of hundreds of jobs in our State. These are the types of programs that create jobs, and help solve the energy crisis by aggressively stepping up our wind and other renewable energy production.

Another energy-related ARRA program that I would like to recognize is the DOEs "Retrofit Ramp-Ups" for Energy Efficiency. This program has the potential to provide energy efficiency opportunities to hundreds of homes and businesses throughout the nation, while simultaneously creating new, private sector "green" jobs. The DOEs "Retrofit Ramp-up" is an innovative approach to invigorating our nation's energy efficiency efforts, and I encourage support of this and similar programs as Congress explores unique ways to save and create jobs.

In lowa, we are leading the way in renewable energy. Iowa is second in the nation for installed wind capacity with 3,043 megawatts. Iowa is also a national leader in the manufacture of wind energy generation components. Nine companies have committed 2,300 manufacturing jobs to the State of Iowa, and Iowa communities in wind energy alone, since Clipper Windpower announced its decision to locate in Iowa in 2005. Wind energy has also been profitable for existing Iowa manufacturers. More than 200 Iowa companies are now supplying the wind industry, accounting for more than \$50 million in new revenues annually.

Beyond wind, Iowa is first in the nation in production of both ethanol and biodiesel. We produce 26% of U.S. ethanol in 34 refineries and 12% of the nation's biodiesel in 14 refineries scattered across the state. Ethanol production capacity in the state is 3.3 billion gallons per year and biodiesel production capacity is 325 million gallons providing jobs in manufacturing, agriculture, transportation, construction and many other job sectors across the state. According to the Iowa Renewable Fuels Association, in 2008 biofuels production supported nearly 83,000 jobs throughout Iowa's economy and generated \$576 million in state tax revenue.

Speaking of biodiesel, I want to take a moment during my testimony today to urge Congress to immediately extend the biodiesel tax credit. In lowa, the biodiesel industry is responsible for the creation of hundreds of jobs. A temporary absence of the tax credit could impact the production of this important renewable fuel. A multi-year extension of this tax credit is needed, and should be a legislative priority for Congress. Because of the significance of this issue to my state and to the industry, I have sent a letter to President Obama urging his support for quick action on this vital extension. Along with biodiesel, other critically important renewable energy tax credits, like the wind production tax credit, should be given long term extensions. Long term extensions would bring surety and increased private sector job creation opportunities throughout the various sectors of the renewable energy industry.

As you can tell, I believe the renewable energy industry is vital to Iowa's economy, and we cannot have a conversation about strengthening Iowa's workforce without talking about strengthening our commitment to renewable energy as well.

Strengthening Workforce Development in Iowa

Since the recession began in December of 2007—when lowa's unemployment rate was 3.7%— lowa's seasonally adjusted unemployment rate has risen to 6.6% (in December of 2009). Because lowa's economy is more agriculturally oriented—our total unemployment is kept lower. Farmers are always employed; in tough years they simply earn less. Right now, there are 109,937 lowans drawing unemployment benefits, which is nearly triple where we were just two years ago.

One of the most disturbing trends we are seeing in the Iowa economy is the number of long-term unemployed. Currently, nearly 40,000 workers are on extended unemployment benefits which means they have exhausted their state benefits, which usually last 26 weeks. Many of these workers have collected more than a year's worth of benefits. This is disturbing because traditionally Iowans do not stay on unemployment for a long period of time because of our strong work ethic. We attribute this unusually long period of time to the length and depth of this recession.

Many lowans right now are simply having trouble connecting with work. Many do not have the skills needed to compete for the good paying jobs which were created in our economy before the recession. This includes many former manufacturing workers whose jobs have gone overseas. Even many highly skilled workers are not finding the opportunities while job creation has lagged. We believe it is crucial to extend the Emergency Unemployment Compensation program for lowa's families and communities until our economy is able to make a meaningful recovery. Ideally, federal benefits would be continued through the end of 2010 to give our economy time to make a significant recovery and create more jobs.

In lowa, our workforce system is undergoing a dramatic transformation under the leadership of Workforce Development Director Elisabeth Buck. She has undertaken an integration project to better coordinate workforce services. At the heart of the initiative is a mission to treat unemployed workers as job seekers instead of treating them like "claimants." A crucial piece of this effort has been to utilize the ARRA funds for Reemployment Services to better connect struggling Iowans to work opportunities. Through federal Reemployment Services funding, IWD is able to identify struggling Iowans early on and quickly call them into one-stops throughout the state. These workers are then educated about the changing nature of the workforce and given opportunities for free workshops on subjects like computers, job-seeking, resume

drafting and labor market information. A strong emphasis is placed on short-term skills development and improvement. The ultimate goal is to reduce the time that workers spend on unemployment and connect them with work more quickly. In the end, everyone wins: workers are better off earning paychecks instead of unemployment checks, employers get the workers they need and the state trust fund stays healthy and in the black. Iowa strongly supports continued federal funding for Reemployment Services.

Another program that is showing progress in Iowa is our Voluntary Shared Work program. It has been extremely successful in averting large-scale layoffs in Iowa. Iowa is one of only seventeen states which have innovatively used this program on behalf of Iowa businesses. In 2009, 72 Iowa employers took advantage of this program to prevent mass layoffs and instead allowed over 8,000 workers to collect partial unemployment checks while preserving those jobs. Iowa supports the efforts by the federal government to fund this program.

One of the lingering effects of the economic downturn and the high unemployment rates is the effect it has on state and local revenues. Historically, states experience the worst fiscal conditions in the year(s) after a national recession ends.

State Budget Conditions

According to the Center for Budget and Policy Priorities, 48 states have addressed and some still face shortfalls in FY2010 of nearly \$193 billion or 28% of state budgets – the largest gap on record. CBPP further projects combined gaps of \$350 billion for 2010 and 2011.

These precipitous drops in state revenue have been difficult on state budgets and forced tough choices at the state level. Because of balanced budget requirements¹, states typically have limited choices in times of extended economic downturns. Many of these necessary actions can make the downturn more severe. I have taken raising taxes off the table, so as not to increase the burden on hard-working lowans and instead, we have focused on reducing spending. I have taken several "belt tightening" steps to help our state adapt to reduced revenues:

I have cut spending significantly, instituted a far-reaching lean government initiative, ordered furloughs for non-contract employees, and put in motion several efforts to improve efficiency, eliminate redundancies and identify wasteful spending.

Along with these measures, we successfully negotiated a cost and job-savings agreement with two of our state's largest unions: the state police officers and AFSCME. Fortunately, their members agreed to prevent significant layoffs and share in the sacrifice for the greater good.

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¹ All but one state has a balance budget requirement.

Each of these actions has been a challenge and has required sacrifice in the State and throughout state government. But, just like Iowa families have to make hard budget decisions when times get tough, so should state government. Because of these cost savings initiatives, our state budget, today, is smaller than it was on the day I took office in 2007. I am proud of the resilience that Iowans have shown during these tough times and know that there are better days ahead.

Extension of SFSF and FMAP

Unfortunately, even with distribution of ARRA funds and other innovative programs, states' budgets will continue to be challenged over the next two years. That is why I and my fellow Governors appreciate the fact that Congress is considering additional action to help States fully recover from this worldwide economic downturn. I have with me today a letter signed by 23 of my colleagues asking for your assistance in regards to extending the increased Federal Medicaid Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF), and I would ask that a copy of it be put in the record.

Continuation of the enhanced FMAP and the state fiscal stabilization fund (SFSF) that were enacted as part of ARRA should be included in an appropriate legislative vehicle this spring, if not sooner. Given that state revenues remain at such a reduced rate, I ask that you give states the maximum flexibility when setting the criteria for drawing down these funds. The Government Services SFSF funds, which made up 18% of each state's SFSF allocation, were the most flexible dollars available to states through ARRA. In Iowa, we have been able to use these funds in a variety of areas — we have sent money to counties throughout Iowa for infrastructure repair, public safety, nursing home inspections, elderly wellness, community colleges, the Iowa National Guard, correctional facilities, and other vital services. A greater percentage of funds towards Government Services would be an improvement in a new iteration of SFSF. This flexibility will ensure that these dollars are able to be used more quickly for the purposes in which they were intended to maintain and create jobs.

I ask that Congress move forward with jobs legislation quickly. Time is of the essence given the State legislative calendar. I am in the process of finalizing my FY 2011 budget that our legislature will consider in the coming weeks. Our legislature has agreed to a shortened session due to budget constraints, which further heightens the time sensitive nature of this request. Our session will likely be over by the first of April and thus our FY11 budget will have been enacted before our legislature departs. Iowa is not unique in this area. Many of my colleagues in other states are facing similar timelines and will have to enact balanced budgets that take into account the funding available at the time of enactment. The promise that more funding might be coming from the federal government will not be enough. Timely passage of an

extension of ARRA's enhanced FMAP and SFSF provisions would greatly assist us in maintaining services and avoiding tax increases that could slow the nation's recovery.

To conclude my remarks, I would like to make one last statement regarding renewable energy. As you may have noticed I feel passionately about this subject and think that investment in all forms of renewable energy can be key to future job creation, both in the public and private sectors. As a follow up to my testimony this morning, I will send specific recommendations for job creation in the area of renewable energy to each of your offices. I ask for your priority consideration of these recommendations.

Again, Senator Harkin, thank you for the invitation to be here today, and I would be pleased to answer any questions you may have...